

**WASHINGTON STATE ASSOCIATION OF WATER/WASTEWATER DISTRICTS**  
**King County, Washington**  
**January 1, 1992 Through December 31, 1995**

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**Schedule Of Findings**

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1. Association Officials Should Improve Their Accounting And Financial Reporting System And Related Internal Control Procedures

Our audit revealed material weaknesses in the Washington State Association of Water/Wastewater District's accounting, financial reporting system, and internal control procedures. These conditions were caused by board officials not being actively involved in monitoring the executive director/administrator who was not maintaining adequate records. These deficiencies directly impacted the accuracy, reliability, and completeness of information in the association's accounting records. Consequently, we are unable to render an opinion on the association's financial statement.

Specifically, we noted the following:

a. Accounting System

(1) A general ledger and subsidiary accounting system were not maintained. Accurate financial statements were not routinely prepared and provided to the board.

(2) A checkbook register of checks and deposits was not maintained. Additionally, it was not possible to determine how or if association officials were reconciling internal records to the monthly bank statements.

b. Records Organization

Association personnel used no consistent filing procedures. The management of the new consolidated association spent considerable time attempting to organize the records for the audit, but were still unable to provide all supporting documents and documentation.

c. Cash Disbursements

(1) Many association records lacked supporting documentation and/or were insufficient in detail to determine proper classification of expenditures and the legality of expenditures. Many bank card charges for meals and checks written to restaurants were not supported with the business reason for the meal.

(2) The executive director did not consistently obtain a second signature on checks exceeding \$200 in the years 1992 through 1994 and \$500 in 1995. The association's policy required a second signature on checks exceeding those levels.

d. Cash Receipts

The executive director performed the incompatible duties of receipting, recording, and depositing of funds and the association lacked compensating controls to offset this lack of separation of duties.

Washington State law requires association officials to properly account and report their financial activity. RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. (Emphasis ours.)

To satisfy the requirements of RCW 43.09.200, the district's accounting system must include adequate internal controls. The American Institute of Certified Public Accountants (AICPA) U.S. *Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider include the following:

Transactions are executed in accordance with management's general and specific authorization.

Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.

Access to assets is permitted only in accordance with managements authorizations.

The recorded accountability for assets is compared with the existing assets of reasonable intervals and appropriate action is taken with respect to differences.

Given the deficiencies of the association's internal control structure and its accounting system, we expended our testing in an attempt to determine if the association's resources were only used for legitimate public purposes. With respect to the items we tested, we

noted no provable misuse of funds, however, we cannot guarantee for transactions not tested that funds were only used for legitimate public purposes.

We recommend officials of the Washington State Association of Sewer and Water Districts (WASWD), newly consolidated from the former Washington State Association of Water/Wastewater Districts and the Washington State Sewer and Water Association, consider the noted weaknesses in designing and implementing the internal control structure and accounting system for the new consolidated association.

We further recommend WASWD officials exercise a strong management review and oversight function to achieve adequate separation of duties in the receipting and disbursing functions. Board involvement is critical to this process given the small size of the association's staff.